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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 000172

SIPDIS

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TAGS: [ECON](#) [EFIN](#) [PINR](#) [TW](#) [CH](#) [HK](#)
SUBJECT: IS THIS A TAIWAN BANK?

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Classified By: AIT Director Douglas Paal, Reason 1.4 d

¶1. (C) Wells Fargo Asia Regional Manager/Senior Vice President recently contacted AIT/Econ for advice on a problem involving the Taiwan-China relationship. The problem he described illustrates some of the complexities in cross-Straits banking, the mixed ownership of multinational companies, and the different approaches of different Taiwan government agencies.

Who Owns What

¶2. (C) Wells Fargo has owned 20% of Shanghai Commercial Bank (Hong Kong) (SCBHK) for 37 years. SCBHK is also 57% owned by Shanghai Commercial Savings Bank (Taiwan) (SCSB) and 23% owned by the municipal government of Shanghai. In turn, SCBHK owns 3% of the PRC state-controlled Bank of Shanghai. In addition to 43 branches in Hong Kong, one in the UK, and three in the U.S., SCBHK has a fully-licensed foreign branch in Shenzhen, China and a rep office in Shanghai. SCBHK has about US\$10 billion of assets in Hong Kong, about 22% capitalized. SCBHK in turn owns significant equity in SCSB. The major shareholders of SCSB Taiwan are the Yung and Lee families, which fled Shanghai for Hong Kong in the late 1940s, but still have deep political and economic connections on both sides of the Taiwan Strait. Given that SCSB originated in China, some 28% of equity is still held by people residing in China. These shares have been put into a trust and are managed separately.

Is SCBHK a Taiwan Bank?

¶3. (C) SCBHK wishes to convert its rep office in Shanghai into a fully-licensed foreign branch as well, but has been unable to obtain approval (or non-objection) from Taiwan banking regulators. Given the 57% ownership by SCSB of SCBHK Taiwan banking regulators assert that their permission is pre-requisite for any expansion into mainland China by SCBHK. A little over a year ago, SCBHK obtained permission (actually, a letter of non-objection) from Taiwan banking regulators (the Financial Supervisory Commission (FSC) Banking Bureau) to convert its (then) rep office in Shenzhen into a fully-licensed branch.

¶4. (C) However, shortly after the FSC letter of non-objection was issued, China passed its Anti-Secession Law in early 2005 which sent cross-Straits relations into a temporary tailspin. In response to the PRC action, Taiwan's Mainland Affairs Council ordered the FSC letter of

non-objection rescinded. Although the letter was rescinded, SCBHK had already established a fully-functional, fully-licensed branch in Shenzhen. Taiwan banking regulators are fully aware of this unique situation, but have done nothing about it, leaving SCBHK as the only "Taiwan" bank with an operational branch in China.

¶5. (C) Taiwan regulators currently take the view that no Taiwan banks should establish branches in China until there is an agreement on regulatory supervision of banks between Taiwan and China. However, so far, political sensitivities have made it impossible to establish such an agreement.

¶6. (C) Wells Fargo wanted AIT's advice on whether to approach Taiwan regulators with these facts in hope of being exempted from the regulations covering Taiwan banks. AIT offered to relay discreetly the question to banking regulators (Wells Fargo said it would discuss the AIT offer with SCBHK's Taiwan shareholders before responding to our offer), but believes there is little to no chance of SCBHK being considered anything other than a Taiwan bank as long as it is 57% owned by a Taiwan bank. However, AIT believes that if Wells Fargo were to increase its stake to become the largest shareholder, a good case could be made that SCBHK is no longer a Taiwan bank.

¶7. (C) Comment: This case provides an example of the disarray of Taiwan agencies on cross-Strait policy and implementation and its impact on U.S. companies, as well as a marvelous description of the high level of integration in business circles throughout Greater China, and especially across the Strait. People talk about how complex and sensitive relations are across the Strait, but as we previously noted in the airline business, people on both sides of the Straits often have well-established relations, know each other's business, and have real commercial opportunities that they can exploit, but Taiwan and Beijing policies prevent the companies from implementing rational arrangements.

¶8. (C) Leading families in Greater China often hedge their bets by assigning different branches of the family to different geographic locations, or, as we often see in Taiwan, employ a deliberate strategy of having some members of the family support the ruling party and others support the opposition parties. The emerging results are global business networks that transcend country, culture, and language, and that are well-positioned for an increasingly important role in a globalized economy. These mixed institutions offer some unique channels to strengthen practical cross-Strait cooperation, but only if authorities on both sides are prepared to be flexible and supportive. Post January 1, prospects appear dim on the Taiwan side at least for the short term.

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